

Medigap and Medicare Advantage in Michigan

November 2012

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- The legislation ensures the AG agreement to freeze Medigap Rates for the next four years will stay in place
 - After the freeze, the legislation specifies that over half of the revenue spent yearly from the \$1.5 billion contribution will be a targeted, more effective Medigap program to help Seniors in need
 - This new Medigap structure will not require small business to pay more for BCBSM insurance to fund the subsidy – which harms their ability to provide insurance for their employees and create jobs
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 - Medicare Advantage is community rated and guaranteed issue

Understanding Medigap and different health coverage options for Seniors

What is Medigap?

- **Medigap is a supplemental plan** for seniors who choose Original Medicare. It is not Medicare, and seniors have other choices for coverage
- Medigap subsidies were enabled before Medicare Advantage was created by the federal government
- Medigap market share for the Blues has remained locked in place because of heavy subsidies
 - BCBSM has 210,000 seniors enrolled in Medigap that our competitors presumably want, but can't have because subsidies applied to our product make theirs uncompetitive on price

Medicare Advantage is a viable option for Seniors

- **Medicare Advantage has outgrown Medigap** in total enrollment because it is a better, more affordable, more comprehensive, and guaranteed issue option in the market
- Medicare Advantage costs have gone down over time because **companies are competing on a level playing field for customers**

Health benefit coverage differences between Medigap and Medicare Advantage

- Medicare Advantage provides medical management where Medigap does not
- Medigap patients can receive service anywhere Medicare is accepted; Medicare Advantage is serviced in-state by PPO and out-of-state by PPO/ providers that accept Original Medicare
- Medicare Advantage provides many benefits which are not covered under Medigap:
 - Some preventative service
 - Allergy testing
 - Vision
 - Dental
 - Enhanced prescription formularies (5 vs. 2-3)
 - Home Infusion Therapy
 - Nutrition and tobacco cessation
 - Unlimited in-patient hospital
 - Unlimited in-patient/ out-patient mental health

Seniors have health coverage alternatives to Medigap that are similar in cost, yet offer more comprehensive benefits

	Medigap		Medicare Advantage		
	Coverage	Included	Coverage	Included	
Health benefits offered	▪ Medicare Part A	✓	▪ Medicare Part A	✓	<ul style="list-style-type: none"> Most Medicare Advantage plans provide at least the same coverage and often at a lower cost In many cases, Medicare Advantage provides better coverage at a meaningfully lower cost
	▪ Medicare Part B	✓	▪ Medicare Part B	✓	
	▪ Prescription benefits ¹	✓	▪ Prescription benefits	✓	
	▪ Vision	✓	▪ Dental	✓	
Oakland county example	▪ Coverage for conditions excluded under Medigap	✓	▪ Vision	✓	
			▪ Coverage for conditions excluded under Medigap	✓	
	Example		Example		
	Medicare Part B	99.90	Medicare Part B	99.90	
	BCBSM Legacy Medigap	122.86	BCBSM Medicare Plus PPO	112.40	
	BCBSM PDP B Premium	87.30	Total OOP	243.0	
	Total OOP	75	Monthly total	355	
	Monthly total	385	Yearly Total	4,260	
	Yearly Total	4,620			

Medigap costs 8% more than Medicare Advantage which offers better coverage

MA plan includes dental²

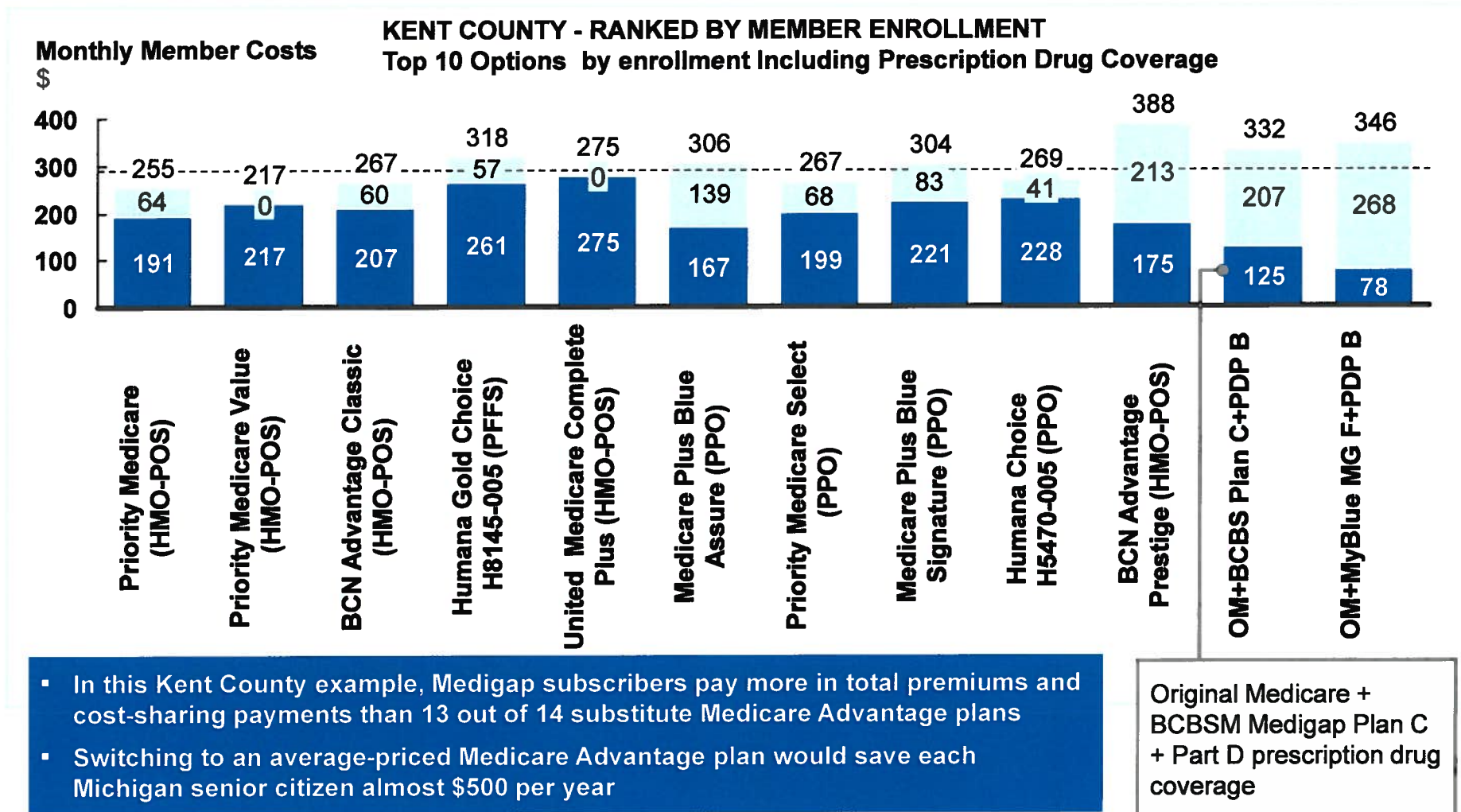
¹ After January 1, 2006, no Medigap policies may be sold with prescription drug coverage (coincides with introduction of Medicare Part B benefit).

² Dental coverage is approximately \$35 to \$40 per month in total costs if purchased separately

Alternatives to Medigap are similar in cost and quality but don't hurt small businesses and individuals (Kent County)

Medicare Advantage is a single plan that replaces the need for combining original Medicare with various Medigap and Part-D Prescription drug coverage plans

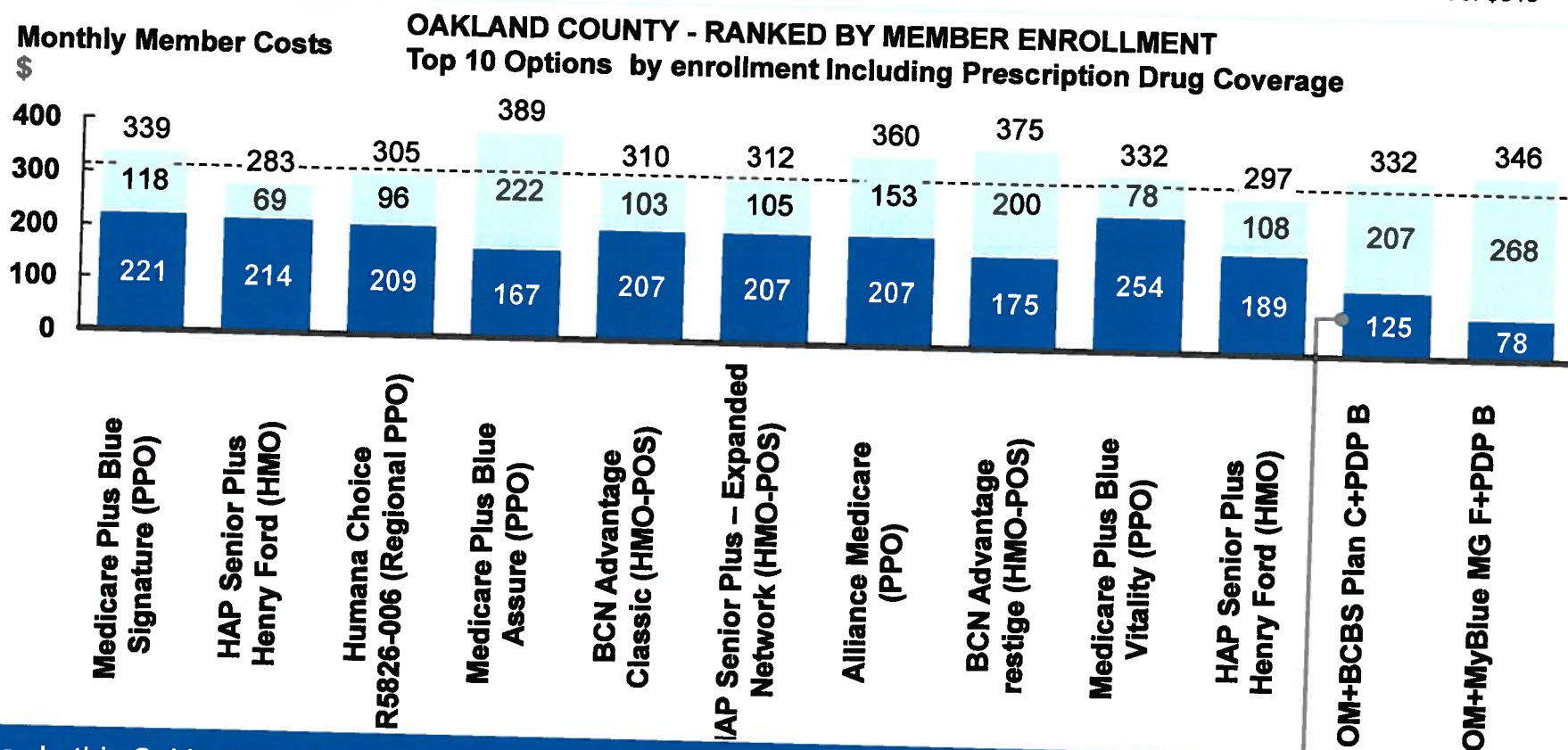
Member Cost Sharing
Monthly Member Premium
---- Average weighted by enrollment of \$289



Alternatives to Medigap are similar in cost and quality but don't hurt small businesses and individuals (Oakland County)

Medicare Advantage is a single plan that replaces the need for combining original Medicare with various Medigap and Part-D Prescription drug coverage plans

Member Cost Sharing
Monthly Member Premium
----- Average weighted by enrollment of \$313



- In this Oakland County example, Medigap subscribers pay more in total premiums and cost-sharing payments than 15 out of 24 substitute Medicare Advantage plans
- Switching to an average-priced Medicare Advantage plan would save each Michigan senior citizen almost \$250 per year

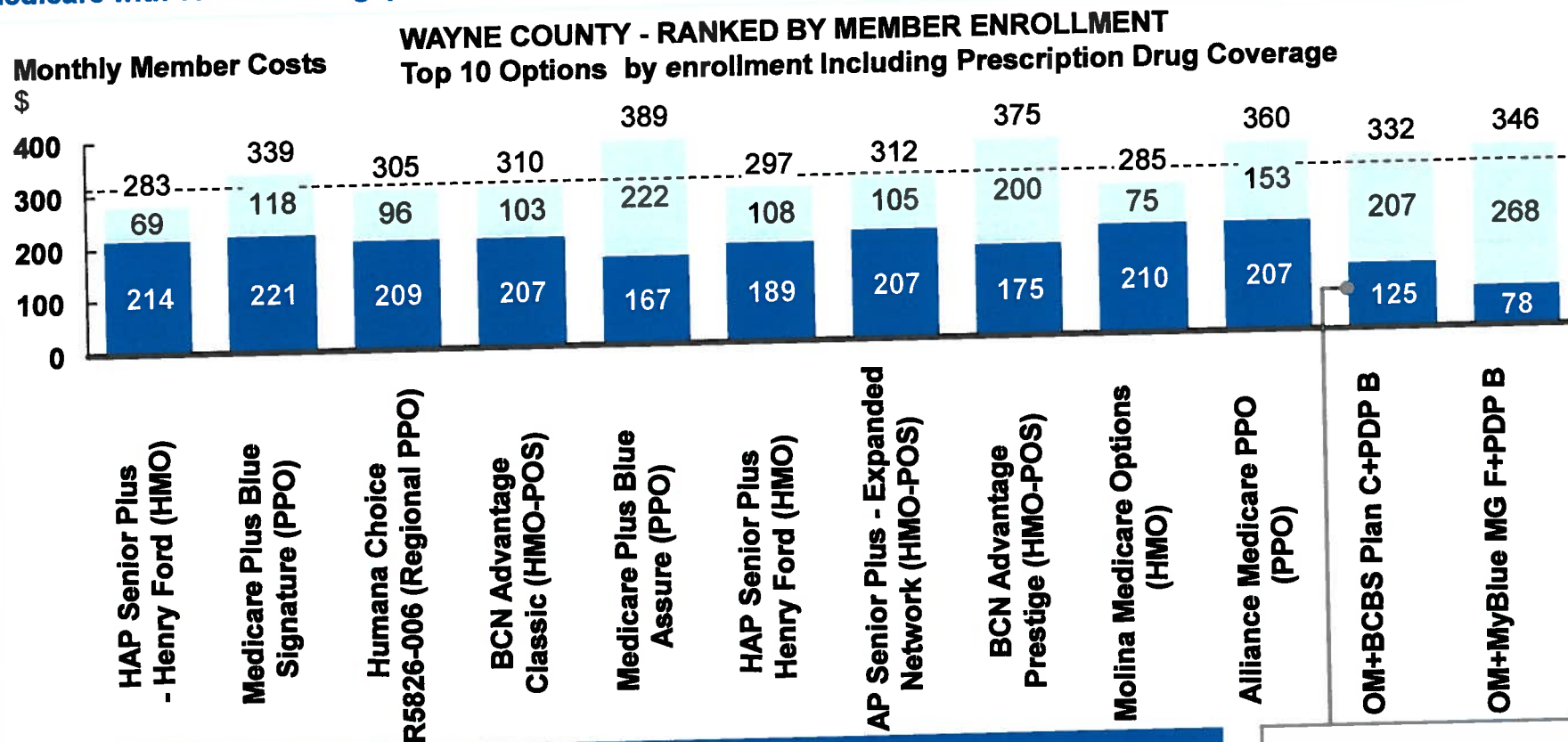
Original Medicare +
BCBSM Medigap Plan C
+ Part D prescription drug
coverage

SOURCE: BCBSM Business Segment Reports, 1998-2010; Projected subsidies based on historical enrollment, rate increases, and claims data

Alternatives to Medigap are similar in cost and quality but don't hurt small businesses and individuals (Wayne County)

Medicare Advantage is a single plan that replaces the need for combining original Medicare with various Medigap and Part-D Prescription drug coverage plans

Member Cost Sharing
Monthly Member Premium
----- Average weighted by enrollment of \$312

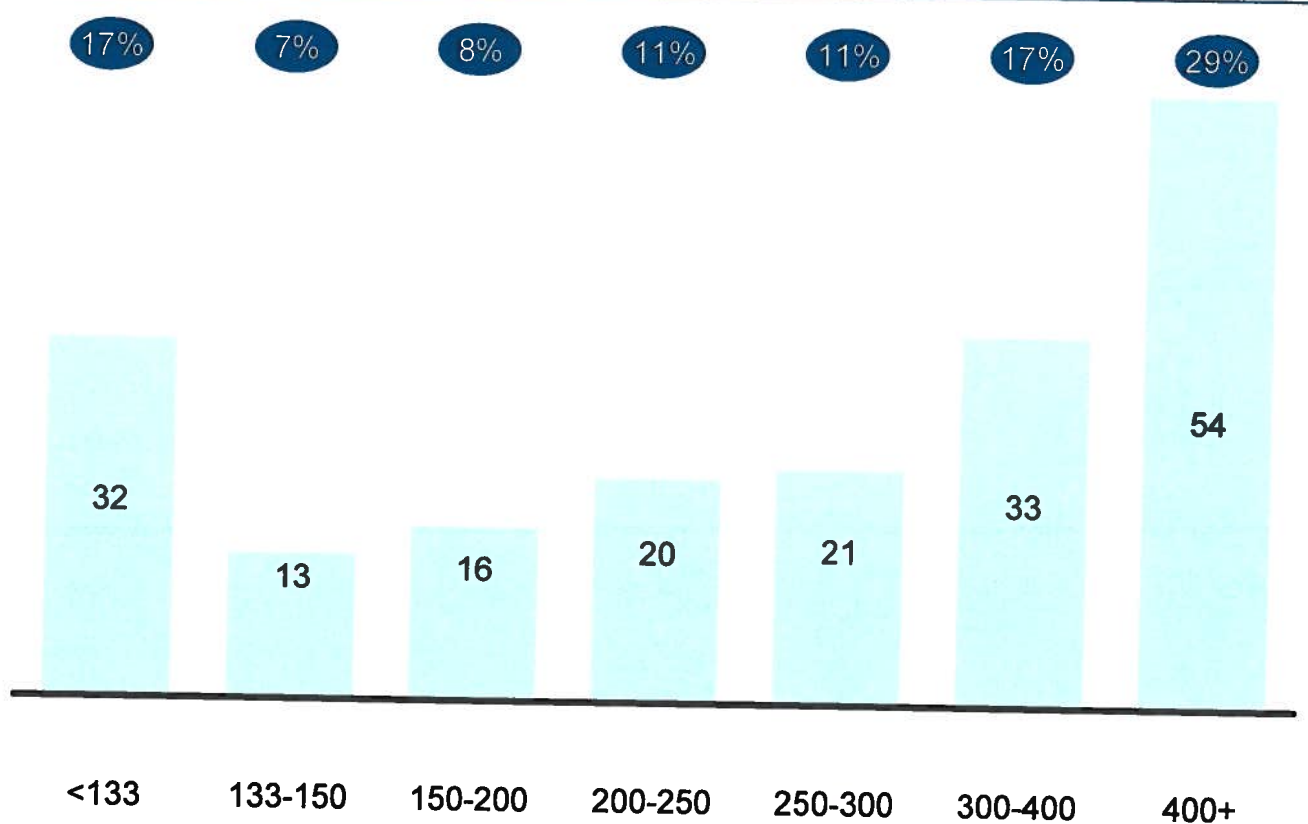


- In this Wayne County example, Medigap subscribers pay more in total premiums and cost-sharing payments than 13 out of 21 substitute Medicare Advantage plans
- Switching to an average-priced Medicare Advantage plan would save each Michigan senior citizen almost \$250 per year

Original Medicare + BCBSM Medigap Plan C + Part D prescription drug coverage

Medigap Customers and the Federal Poverty Level

Medigap members by percentage of FPL
Thousands of members; percent of total



New non-profit Fund would determine how to best administer the means testing to ensure subsidy for the seniors that are in need

SOURCE: BCBSM Medigap book analysis

While some claim that insurers can deny Medigap coverage under ACA, federal and state law dictate otherwise

Opponents have made incorrect claims regarding Medigap issuance

“...this legislation does away with the insurer of last resort in Michigan which means when the provisions in this law run out, the 9 year rate freeze on Medigap policies, it would be legal for all insurers to deny coverage for a senior with a pre-existing condition.”

– Don Hazaert,
Michigan Consumers for Healthcare
(House Insurance Committee meeting,
11/13)

The law states that Medigap issuance cannot be denied due to health status

“The issuer of a Medicare Supplemental Policy may not deny or condition the issuance or effectiveness of a **Medicare Supplemental Policy**, or discriminate in the pricing of the policy, **because of health status, claims experience, receipt of health care, or medical condition** in the case of an individual for whom an application is submitted prior to or during the 6 month period beginning with the first month as of the first day on which the individual is 65 years of age or older and is enrolled for benefits under part B.”

- **Social Security Act Section 18821**

Outside of open enrollment period, there are many other situations in which individuals have guaranteed issue right to Medigap

Medigap is always guaranteed issue during the open enrollment period...

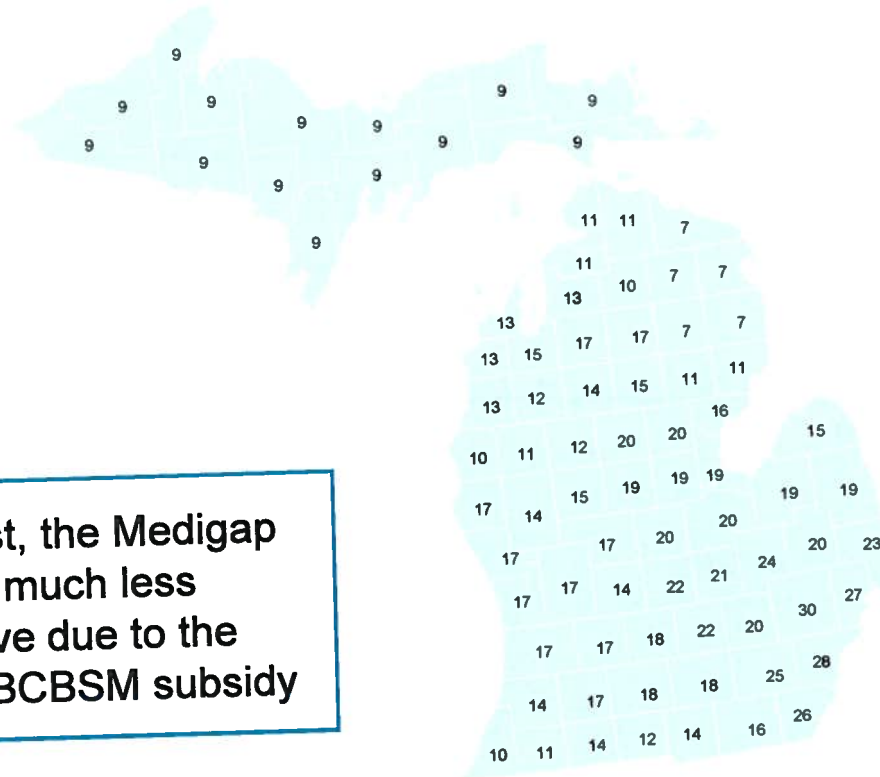
- Both federal and state law require that during the Medigap open enrollment period, **all Medigap health insurance issuers must make all Medigap policies available** to individuals on guaranteed issue basis **with no health status underwriting**
- There are also certain special situations when Medigap guaranteed issue goes into effect

...and guaranteed issue during special situations NOT EXHAUSTIVE

- One decides to switch to original Medicare within one year of enrollment in Medicare Advantage (when first eligible)
- One loses Medigap when Medigap insurer goes bankrupt
- One loses Medigap when Medigap coverage ends (through no fault of the individual)
- One's insurer leaves Medicare or stops providing care in residence area (while individual is enrolled in Medicare Advantage)

A highly competitive Medicare Advantage market exists in Michigan, with numerous options available for seniors: 23 private health insurers offer 86 MA plans

Number of MA plans in Michigan counties, 2013



- On average 15 insurers compete in each county
- Each county has between 7 and 30 MA plans from which to select

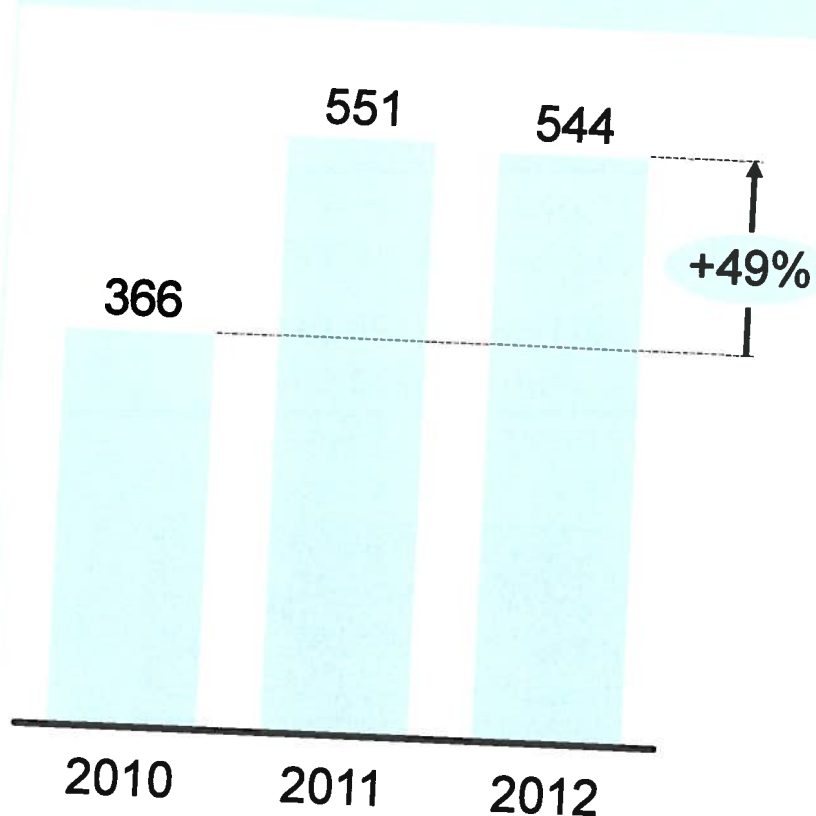
In contrast, the Medigap market is much less competitive due to the required BCBSM subsidy

Insurers include Aetna Medicare, Alliance Medicare PPO, Blue Care Network, Blue Cross Blue Shield of Michigan, Care Improvement Plus, Erickson Advantage, Express Scripts Medicare, First Health Part D, HAP Senior Plus, HealthPlus, Humana Insurance Company, Paramount Elite, Priority Health Medicare, SilverScript, SmartD Rx, United American Insurance Company, UnitedHealthcare, Universal American Corp., WellCare

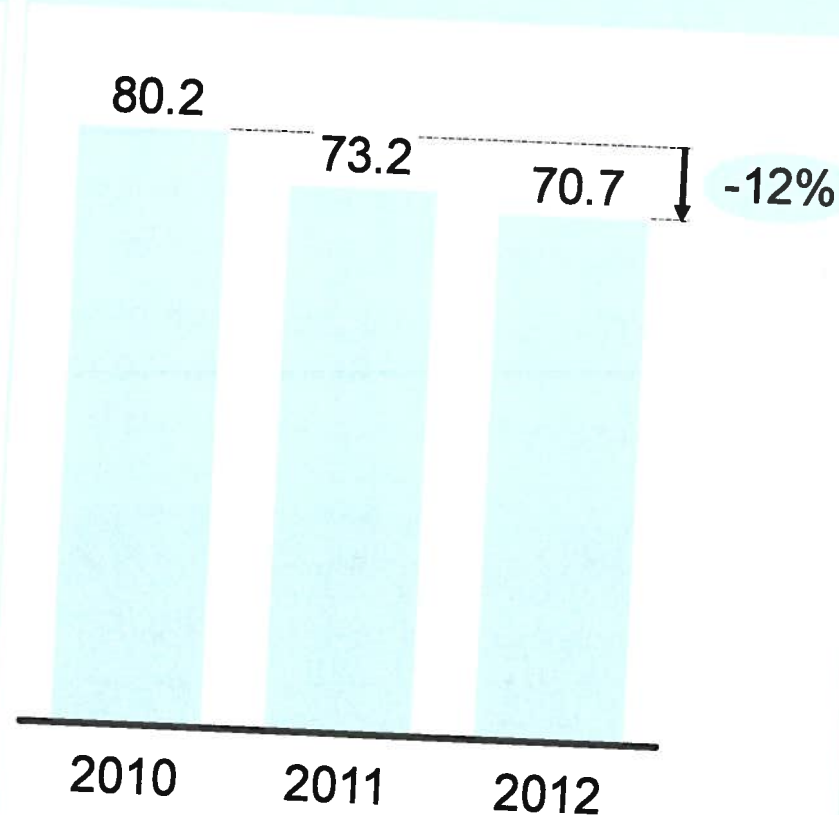
SOURCE: CMS

Because Medicare Advantage is a competitive market, plan prices have come down over the last 3 years as the number of plans has grown

**Number of non-employer Medicare Advantage plans
Michigan¹**



**Average monthly premium of non-employer Medicare Advantage plans,
Dollars per month, Michigan¹**



¹ Excludes Special Needs plans
SOURCE: CMS

CONCLUSION:

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BCBSM will make contributions of \$4.1 billion to Michigan over the next 18 years

**\$4,100,000,000
total contribution
over the
next 18 years**

- Under Governor Snyder's proposal, BCBSM will make substantial contributions to the State of Michigan
 - **\$1.5 billion** in social mission contributions
 - **\$1.8 billion** in estimated taxes
 - **\$800 million** Medigap subsidy (through 2016)
- This is an unprecedented opportunity for Michigan

